

# FISCAL NOTE

**Bill #:** SB0239

**Title:** Continuation of employer provided health insurance as retirement incentive

**Primary Sponsor:** Mangan, J

**Status:** As Amended Second Time in Senate Committee

Sponsor signature

Date

Chuck Swysgood, Budget Director

Date

## Fiscal Summary

	<b><u>FY 2004 Difference</u></b>	<b><u>FY 2005 Difference</u></b>
<b>Expenditures:</b>		
General Fund	(\$1,644,641)	(\$1,543,819)
Current Unrestricted	(\$690,228)	(\$602,553)
State Special Revenue	(\$928,618)	(\$915,827)
Federal Special Revenue	(\$412,719)	(\$407,037)
Other	(\$283,744)	(\$279,836)
<b>Revenue:</b>	\$0	\$0
<b>Net Impact on General Fund Balance:</b>	\$1,644,641	\$1,543,819

☐ Significant Local Gov. Impact

☐ Technical Concerns

☐ Included in the Executive Budget

☒ Significant Long-Term Impacts

☐ Dedicated Revenue Form Attached

☒ Needs to be included in HB 2

## Fiscal Analysis

### ASSUMPTIONS:

#### **Department of Administration**

1. It is assumed that the intent of the bill is to cover only those employees eligible to retire, based on age or service, without an actuarial reduction in benefits (19-2-303(29), MCA). This analysis is based on the current eligibility requirements under the MPERA systems in determining eligible participants. It is assumed that any additional cost to the state for providing insurance coverage under this bill will only be affected by those employees selecting "normal" retirement between July 1, 2003 and October 1, 2003, who are less than 65 years of age and not yet eligible for Medicare benefits.
2. All individuals terminating employment under this bill are assumed to be eligible for insurance coverage at the non-Medicare, retiree-only premium rate, including the dental plan and the basic life insurance plan, which currently is equivalent to the state share rate provided to active employees. This fiscal note assumes that the average price for non-Medicare coordinated retiree premiums will continue to be equivalent to the state share rate in future years. The state share contribution for calendar year 2003 is

# **Fiscal Note Request SB0239, As Amended Second Time in Senate Committee**

(continued)

\$366; for calendar year 2004 it is estimated to be \$410; and for calendar year 2005 it is estimated to be \$460.

3. The “blended” state share and non-Medicare contribution rates for FY 2004 is \$388 and for FY 2005 is \$435.
4. Based on information provided by the Montana Public Employees Retirement Administration, the following individuals would be eligible for this benefit:
  - Individuals who are 60 to 64 years of age and have at least 5 years service: 416
  - Individuals with at least 30 years of service and less than 60 years of age: 184
  - 600
  - 50 percent, or 300, of those eligible choose the incentive ( $600 \times 50\% = 300$ )
5. For purposes of this fiscal note, it is assumed that the number of employees that would normally retire between July 1, 2003 and October 1, 2003, in the absence of this bill, is one quarter of the number of retirees during FY 2002, or 63. It is assumed that all positions vacated by retirees covered by this bill are filled at 90 percent of the average salary rate for employees with 0-23 years of state service, which is \$15.54 ( $90\% \times \$17.27$ ). For insurance calculations, a July 1, 2003 retirement date is assumed for all persons selecting the retirement incentive. No pay raises are considered in calculations for this fiscal note.
6. Funding is prorated to its source based on FYE 2002 total state personal services extracted from SABHRS:
  - a. GF 37%
  - b. SSR 36%
  - c. FF 16%
  - d. Other 11%
7. See the following table for the increase in the state contribution to health benefits.

Insurance covered by State with the SB 239 Incentive					
	<u>SFY2004</u>	<u>SFY2005</u>			
Employee counts covered by year	63	63			
Blended state share rate	\$ 388	\$ 435			
Annual cost	\$ 293,328	\$ 328,860			
			<u>Assumes 12% average increase in state-share</u>		
Fund	<u>SFY2004</u>	<u>SFY2005</u>	<u>SFY2006</u>	<u>SFY2007</u>	<u>SFY2008</u>
Funding split					
GF 0.37	108,531	121,678	136,280	152,633	170,949
FF 0.16	46,932	52,618	58,932	66,004	73,924
Other 0.11	32,266	36,175	40,516	45,377	50,823
SSR 0.36	105,598	118,390	132,596	148,508	166,329
100.00%	\$ 293,328	\$ 328,860	\$ 368,323	\$ 412,522	\$ 462,025

Based on FY 2002 figures, 63 eligible employees would normally retire without this incentive. The amounts in this table reflect the state contribution to insurance premiums for these 63 Individuals, which is an additional expense as a result of SB 239.

**Fiscal Note Request SB0239, As Amended Second Time in Senate Committee**  
(continued)

8. Expected Salaries without SB 239:

300 employees are expected to retire as a result of SB 239 (assumption #4), and 63 employees would normally retire without SB 239 (assumption #5), which means that 237 employees would be at current salaries in the 2005 biennium without SB 239. The average salary per hour in FY 2002 for those employees with 23-28 years of service is \$21.368 per hour. Assuming no raises in the 2005 biennium would equate to the same average salary of \$21.368 in FY 2004 and FY 2005 for these 237 employees. The 63 employees that would have retired without the incentive would be replaced at an average of 90 percent below market, or \$15.54 per hour (assumption #5). As shown in the table below, the costs without SB 239 would be \$12,569,970 in both FY 2004 and FY 2005.

9. Projected Salaries as a result of SB 239:

The 300 eligible employees expected to retire under this incentive would all be replaced at an average of 90 percent below market, or \$15.54 per hour (assumption #5), as opposed to only the 63 included in assumption #8. As shown in the table below, the costs as a result of SB 239 would be \$9,697,147 in both FY 2004 and FY 2005.

	Salary Cost with Incentive		Salary Cost without Incentive			
	(Assumption # 9)		(Assumption # 8)			
	SFY2004	SFY2005	SFY2004	SFY2005	SFY2004	SFY2005
# employees	300	300	63.00	63	237.00	237.00
New Hire at 90% of market	15.5403	15.5403	15.5403	15.5403	21.368	21.368
Hours in year	2080	2080	2080	2080	2080	2080
	<b>\$9,697,147</b>	<b>\$9,697,147</b>	\$2,036,401	\$2,036,401	\$10,533,569	\$10,533,569
			<b>Total cost without incentive</b>		<b>\$12,569,970</b>	<b>\$12,569,970</b>

10. There will be savings in personal services as a result of filling new positions at lesser salaries. The difference between the amounts in assumptions #8 and #9 equate to a savings of \$2,872,823 (9,697,147 – 12,569,970) per year in personal services. Allocation of the funding splits in assumption # 6 results in the savings indicated in the table below, by fund type, for hiring at lesser salaries than the salaries of the retirees. The amounts indicated in FY 2006 through FY 2008 assume that the savings would decrease by five percent per year.

		<u>SFY2004</u>	<u>SFY2005</u>			
		(2,872,823)	(2,872,823)			
		<hr/> Assumes a 5% decrease in savings per year <hr/>				
<b>Funding Fund split</b>		<u>SFY2004</u>	<u>SFY2005</u>	<u>SFY2006</u>	<u>SFY2007</u>	<u>SFY2008</u>
GF	0.37	(1,062,945)	(1,062,945)	(1,009,797)	(959,307)	(911,342)
FF	0.16	(459,652)	(459,652)	(436,669)	(414,836)	(394,094)
Other	0.11	(316,011)	(316,011)	(300,210)	(285,200)	(270,940)
SSR	0.36	(1,034,216)	(1,034,216)	(982,505)	(933,380)	(886,711)
100.00%		(\$2,872,823)	(\$2,872,823)	(\$2,729,182)	(\$2,592,723)	(\$2,463,087)

**Fiscal Note Request SB0239, As Amended Second Time in Senate Committee**  
(continued)

**Commissioner of Higher Education**

11. The University System employs approximately 298 individuals with 25 or more years of service and 296 employees age 60 or more with at least five years of service.
12. It is assumed that 50 percent of those eligible will take the early retirement incentive offered by this bill, resulting in 149 individuals with 25 or more years of service and 148 employees age 60 or more with at least five years of service. It is also assumed that the average length of service for 149 employees is 25 years, making them eligible for five years of coverage. It is also assumed the average length of service for 148 employees is 20 years, making them eligible for four years of coverage.
13. The benefit cost is \$410 per month per employee, or \$4920 per year, in FY 2004. It is estimated that inflationary increase for health insurance benefits will continue at 12 percent annually. The total costs will be \$1,461,240 in FY 2004 (4920 x 297) and \$1,636,589 in FY 2005 (1,461,240 x 112%).
14. As in assumption # 10, there will be savings in personal services as a result of filling new positions at lesser salaries. The average decrease in salary is \$4.60 per hour. This is obtained by taking the savings per year in assumption # 10, dividing by 300 (# individuals taking the incentive), and dividing by 2080 hours per year ( $\$2,872,823 / 300 / 2080 = \$4.60$ ). This hourly figure applied to the total number of University employees accepting the incentive results in a savings of \$2,841,696 (297 retirees x \$4.60/hr x 2080 hours) in both FY 2004 and FY 2005.
15. It is projected that the general fund would pay 50 percent and that other current unrestricted funds would pay the other 50 percent.

**Increase in Benefits Payments**

	Employees 25+ years	Employees 60+ years	Total Employees	Benefit Cost per employee	Additional Benefits Costs
FY 04	149	148	297	\$4,920	\$1,461,240
FY 05	149	148	297	\$5,510	\$1,636,589
FY 06	149	148	297	\$6,172	\$1,832,979
FY 07	149	148	297	\$6,912	\$2,052,937
FY 08	149	0	149	\$7,742	\$1,153,516

**New Hire at 90%**

	Total Employees	Difference in hourly salary @90%	Savings for filling positions at lesser salaries
FY 04	297	4.6	(\$2,841,696)
FY 05			(\$2,841,696)
FY 06			(\$2,699,611)
FY 07			(\$2,564,631)
FY 08			(\$2,436,399)

Savings decreases 5% per year

**TOTALS**

	General fund	Unrestricted fund	Total Cost / (savings)
FY 04	(\$690,228)	(\$690,228)	<b>(\$1,380,456)</b>
FY 05	(\$602,554)	(\$602,554)	<b>(\$1,205,107)</b>
FY 06	(\$433,316)	(\$433,316)	<b>(\$866,632)</b>
FY 07	(\$255,847)	(\$255,847)	<b>(\$511,694)</b>
FY 08	(\$641,442)	(\$641,442)	<b>(\$1,282,884)</b>

**Fiscal Note Request SB0239, As Amended Second Time in Senate Committee**  
(continued)

**FISCAL IMPACT:**

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
<b>Department of Administration</b>		
<u>Expenditures:</u>		
Personal Services	(\$2,579,495)	(\$2,543,963)
<u>Funding of Expenditures:</u>		
General Fund (01)	(\$954,413)	(\$941,266)
State Special Revenue (02)	(928,618)	(915,827)
Federal Special Revenue (03)	(412,719)	(407,037)
Other	<u>(283,744)</u>	<u>(279,836)</u>
TOTAL	(\$2,579,495)	(\$2,543,963)
<b>Commissioner of Higher Education</b>		
<u>Expenditures:</u>		
Personal Services	(\$1,380,456)	(\$1,205,107)
<u>Funding of Expenditures:</u>		
General Fund (01)	(\$690,228)	(\$602,553)
Other Current Unrestricted (01)	<u>(690,228)</u>	<u>(602,554)</u>
TOTAL	(\$1,380,456)	(\$1,205,107)
<b>Statewide</b>		
<u>Revenues:</u>		
General Fund (01)	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$1,644,641	\$1,543,819
Current Unrestricted (01)	690,228	602,553
State Special Revenue (02)	928,618	915,827
Federal Special Revenue (03)	412,719	407,037
Other	283,744	279,836

**Fiscal Note Request SB0239, As Amended Second Time in Senate Committee**  
(continued)

LONG-RANGE IMPACTS:

1. Salary savings, less the cost of providing health benefits to retirees under this bill, will continue until FY 2009. Savings to the general fund are projected at \$1,306,834 in FY 2006, \$1,062,521 in FY 2007, and \$1,381,835 in FY 2008.

LONG-RANGE FISCAL IMPACT

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>	<u>FY 2008 Difference</u>
<b>Department of Administration</b>			
<u>Expenditures:</u>			
Personal Services	(\$2,360,859)	(\$2,180,201)	(\$2,001,062)
<u>Funding of Expenditures:</u>			
General Fund (01)	(\$873,518)	(\$806,674)	(\$740,393)
State Special Revenue (02)	(377,737)	(348,832)	(320,170)
Federal Special Revenue (03)	(259,694)	(239,822)	(220,117)
Other	(849,909)	(784,872)	(720,382)
TOTAL	(\$2,360,859)	(\$2,180,201)	(\$2,001,062)
<b>Commissioner of Higher Education</b>			
<u>Expenditures:</u>			
Personal Services	(\$866,632)	(\$511,694)	(\$1,282,884)
<u>Funding of Expenditures:</u>			
General Fund (01)	(\$433,316)	(\$255,847)	(\$641,442)
Other Current Unrestricted (01)	(433,316)	(255,847)	(641,442)
TOTAL	(\$866,632)	(\$511,694)	(\$1,282,884)
<b>Statewide</b>			
<u>Revenues:</u>			
General Fund (01)	\$0	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>			
General Fund (01)	\$1,306,834	\$1,062,521	\$1,381,835
Current Unrestricted (01)	433,316	255,847	641,442
State Special Revenue (02)	377,737	348,832	320,170
Federal Special Revenue (03)	259,694	239,822	220,117
Other	849,909	784,872	720,382